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U.S. DEPARTMENT OF JUSTICE
FEDERAL BUREAU OF INVESTIGATION

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001**

POSTAL RATES AND FEE CHANGES

DOCKET NO. R2000-1

**INITIAL BRIEF OF THE
CONTINUITY SHIPPERS ASSOCIATION**

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The Continuity Shippers Association submits its brief on the rate for the Bulk Parcel Return Service ("BPRS").

A. THE TEST YEAR BPRS UNIT COST, UPDATED
FOR FY 1999 BASE YEAR, IS 99.2 CENTS

The CSA generally supports the use of the most recent data available for purposes of determining rates, except where the data are unreliable. The CSA presents this brief using cost data based on a 1998 Base Year which witness Buc used to conduct the analysis. CSA also presents updated Test Year BPRS unit costs using FY 1999 as the Base Year as presented by the Postal Service, except for mail processing costs because these mail processing costs are unreliable.

1. The Postal Service Has Not Rebutted
Buc's Testimony on the Costs for BPRS

CSA witness Buc (CSA-T-1) shows that the Postal Service has again overstated BPRS costs. In this case, the overstatement is at least 11.6 cents. Tr. 23/10644 (Buc). The overstatement occurred in three areas: collection, mail processing and transportation.

Collection: The Postal Service overstates collection costs by 1.2 cents. The Postal Service uses the Standard A single piece parcel costs as a proxy for BPRS window acceptance costs. Tr. 23/10644 (Buc).

While weighing, rating and collecting postage are performed at the window for Standard A parcels, these activities are performed (and already included in the costs) within the BPRS postage due component. Including these costs in both places amounts to double counting.

Mail Processing: The Postal Service overstated BPRS mail processing costs by 6.6 cents. Tr. 23/10644 (Buc). The Postal Service used the Special Standard B mail processing cost model to estimate BPRS mail processing costs. To tailor this model for BPRS, the Postal Service correctly adjusted inputs to reflect the fact that BPRS parcels are smaller and lighter than Special Standard parcels. As is standard practice, the Postal Service then applied a fixed and a proportional CRA adjustment. Again the Postal Service used the Special Standard adjustment factors. For the fixed adjustment, however, the Postal Service, failed to tailor the factor to reflect the characteristics of BPRS parcels. As Buc notes, not making these modifications to reflect the characteristics of BPRS overstated the unit mail processing cost by 6.34 cents. Tr. 23/10646-10647 (Buc).

The other 0.3 cents derives from the Postal Service's inappropriate assumption that 95.2 percent of BPRS parcels are inter-BMC, while only 4.8 percent are intra-BMC. This assumption is based on all BPRS users receiving returns on a national basis and there being 21 BMCs, i.e. $20/21 = 95.2$ percent. Tr. 23/10647 (Buc).

Buc presents a more logical approach since one of the eight BPRS users surveyed did not receive returns on a national basis. Buc's testimony is based on 91.9 percent of BPRS parcels are inter-BMC, and

8.1 percent are intra-BMC. The effect of this shift is to decrease mail processing costs for BPRS by 0.3 cents. Tr. 23/10647 (Buc).

Transportation: The Postal Service overstates unit transportation costs by 3.8 cents. Tr. 23/10647 (Buc). The Postal Service assumed that the zone distribution of inter-BMC BPRS parcels is the same as that for inter-BMC parcel post parcels. This is clearly wrong. While 23 percent of Parcel Post cubic feet are sent to Zones 6-8, the Postal Service itself stated that 61 percent of BPRS volume is returned to four mailers that "are located in an area that will rarely use zones above zone 5." USPS-T-26 at 37; Tr. 13/5114 (Eggleston).

Buc's testimony is based on an average of the Postal Service's assumption, and the assumption that no BPRS parcels go beyond zone 5. Use of this more reasonable middle-ground assumption reduces unit transportation costs for inter-BMC BPRS parcels by 3.1 cents. This translates to a 2.9 cent reduction in the unit cost for all BPRS parcels (91.9 percent of 3.1 cents). Tr. 23/10648 (Buc).

Buc's recalculation of the proportion of BPRS parcels that are inter-BMC parcels, which was discussed above, results in an additional reduction of 0.9 cents. Tr. 23/10648 (Buc).

2. Test Year BPRS Costs Increase 0.3 Cents
When Using 1999 as a Base Year

The Postal Service filed updated Test Year unit cost figures for BPRS using FY 1999 as the Base Year. See LR-I-469, BP2_99.xls. Excluding the mail processing costs estimate, these new Postal Service estimates are overall almost exactly the same as those filed in January.

Test Year unit collection costs increase by 0.1 cents using the FY 1999 costs as the Base Year. USPS-T-26, Attachment S. The additional 0.1 cent derives from the use of the increased adjustment factor for window acceptance. These costs are excluded entirely under Buc's analysis. Thus, there is no increase in the collection costs using FY 1999 data.

The Postal Service update decreases transportation costs by 1.7 cents. Given the small decrease, the CSA believes that its analysis is still accurate, and thus includes the Postal Service decrease in the overall BPRS unit cost. The CSA accepts the 1.0 cent increase for delivery and the 0.1 cent increase for postage due costs. These increases primarily relate to wage rate increases.

The update of mail processing costs, however, increases BPRS cost significantly. The next section describes why this huge increase is the result of an unexplained anomaly and therefore should not be accepted. CSA presents a more reasonable approach for updating BPRS mail processing costs using the most recent data.

3. The Mail Processing Cost Update is Unreliable

The testimony presented by Dr. Stuart Elliott (RIAA-ST-1), and the unsubstantiated speculation from the Postal Service (RIAA/USPS-1), establish that FY 1999 data for Special Standard mail processing costs are not reliable. The Special Standard B mail processing costs rose by over 40 percent between 1998 and 1999. Because BPRS mail processing costs are based upon Special Standard costs, they show a similar increase. Elliott explained that this increase was anomalous and could not be indicative of the true cost increase. In fact, the

mail processing costs for Special Standard had been decreasing for three consecutive years. Tr. 41/18032-18033 (Elliott).

In addition to the arguments made by Dr. Elliott, Postal Service's cost models also suggest that 1999 Special Standard costs are anomalous. Using the FY 1998 Base Year data, the Special Standard proportional CRA adjustment factor was 1.04. USPS-T-26, Attachment P at 1 (Eggleston). This means that the actual Special Standard unit mail processing cost for operations that the Postal Service modeled differ from the modeled cost by only four percent. This provides confirmation that the Postal Service's model and CRA unit cost were both quite reasonable. Using FY 1999 data, however, the proportional CRA adjustment increased to more than 1.4. See LR-I-469, BP1xls. This shows a clear anomaly since the CRA unit cost was more than 40 percent higher than the modeled cost. Since the FY 1999 update had little effect on the model, Tr. 45/20071-20072 (Degen), the updated CRA unit cost must contain the anomaly.

Because the FY 1999 Special Standard data for mail processing are unreliable, the CSA follows Elliott's conclusion and ignores it. To update the model, the CSA increases unit mail processing costs by 1.8 percent to reflect the higher Test Year wage rate estimated in the Postal Service's update. This increases unit BPRS mail processing costs by 0.9 cents.

4. Other Considerations Also Support Using
BY1998 Data, Rather than the Unreliable 1999 Data

At this late date, the Postal Service finally presented the mail processing update, which contained the enormous mail processing unit

cost increase.¹ In response to the Commission's request for an explanation of the exorbitant increase, the Postal Service's stated that there was an increase in the number of IOCS direct tallies caused by a change in endorsement requirements. Dr. Elliott completely disproved this explanation. Specifically, he shows that there was no similar increase in the number of tallies in the RPW as the Postal Service's explanation would have suggested.

After being completely rebutted, the Postal Service decided to review the numbers again. Postal Service witness Degen testified that the Postal Service made an error in the tallies. He stated that the mail processing costs only increased 20 percent (about half what the Postal Service originally asserted). Tr. 45/20053.

The CSA, and other interested parties, did not have the time to review and scrutinize Degen's last minute testimony. The truth seeking process mandates that parties have the opportunity to effectively examine the evidence presented by others and present alternative evidence. The ever changing submissions by the Postal Service at a late hour effectively prevented such examination. This is another reason the Commission should disregard the Postal Service's late updates, and use the most recent reliable evidence that is available, i.e. BY1998 data.

¹ In its initial response to the Commission's request for an 1999 update on BPRS, the Postal Service outlined numerous difficulties it faced in doing so. The Postal Service stated that it would need to establish a new proxy for collection costs (or update based on a new wage rate ratio). The Parcel Post transportation model could not be simply updated using the new inputs. The transportation model is used for both the transportation and delivery cost components. Although not stated by the Postal Service directly, the same inability to update using new inputs also applied to the mail processing model.

5. Conclusion

In total, the Postal Service 1999 update only increased BPRS costs by 0.3 cents to 99.2 cents per BPRS parcel (where mail processing costs are increased through the 1.8 percent wage increase), as shown in the following chart.

TABLE 1: BPRS UNIT COST 1999 UPDATE
(costs rounded to nearest tenth of a cent)

Cost Component	CSA Unit Cost 1998 (cents) ¹	1999 Update Difference (cents) ²	CSA Unit Cost 1999 (cents)
Collection	2.1	0.0	2.1
Mail Processing ³	50.5	0.9	51.4
Transportation	38.5	(1.7)	36.8
Delivery	3.3	1.0	4.3
Postage Due	4.6	0.1	4.7
Total (w/o contingency)	98.9	0.3	99.2

Detail may not sum to total due to independent rounding.

¹ Tr. 23/10644 (Buc)

² USPS-T-26 (Eggleston), LR-I-469, BP2_99.xls

³ Mail Processing based on CSA unit cost multiplied by 1.8 percent wage increase.

B. STANDARD A REGULAR AND BPRS SHOULD HAVE THE SAME COST COVERAGE

BPRS parcels are the return trip of Standard A outbound parcels. The cost coverage should be the same on the return trip as on the outbound trip.

1. History of Returned Standard A Parcels

Prior to BPRS, Standard A merchandise returns were charged the Third Class single piece rate. In the R94-1 rate case, the average increase for all mail classes was 14 percent. In contrast, the Third Class single piece rate increased by an average of 66.25 percent in the 8-16 ounce range (which is the range for BPRS users). Tr. 23/10652 (Buc). The highest Third Class single piece rate paid (for one pound, ground service or 7-11 day delivery) increased from \$1.79 to \$2.95. This was only \$0.05 less than Priority Mail (for up to two pounds, air transportation within 2-3 day delivery). Tr. 23/10652 (Buc). The \$2.95 was comprised of (no more than) \$1.03 of attributable cost with a cost coverage of (at least) 288 percent.

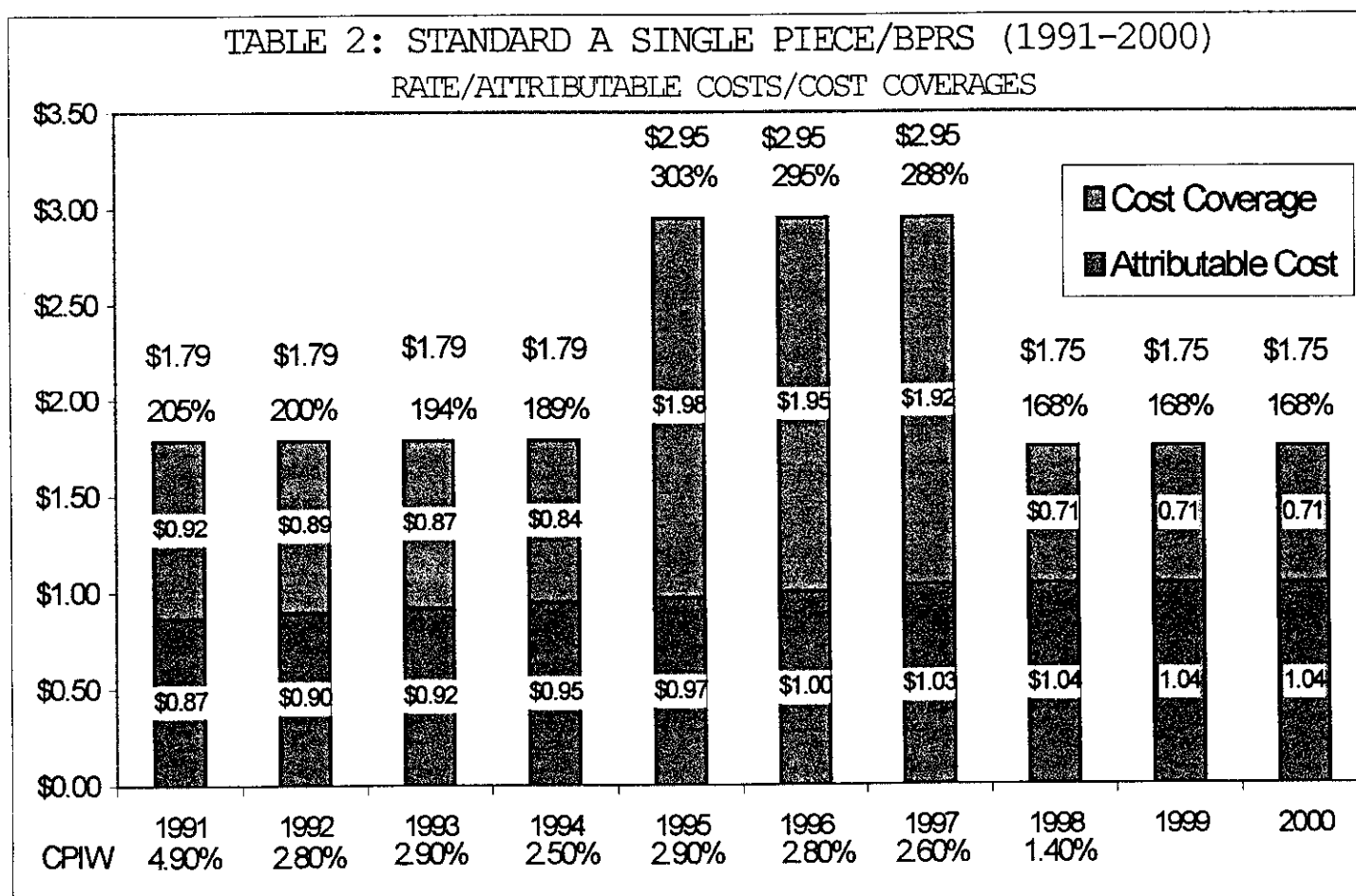
Despite many false starts and promises, including as part of the Parcel Reclassification Case Docket No. MC97-2, the Postal Service did not address the Standard A single piece rate anomaly during 1995 and 1996. Ultimately, the Advertising Mail Marketing Association (now the Association for Postal Commerce or PostCom) filed a complaint with the United States Postal Rate Commission (the "Commission") in October 1996 (Docket No. MC97-4) challenging the rate.

PostCom's complaint was settled through the creation of BPRS (although other possible solutions existed, i.e. reducing the single piece rate). The Postal Service and PostCom agreed to a price of

\$1.75 per BPRS return. The parties did not even discuss, (much less agree on) the attributable cost or the cost coverage. Docket No. C99-4 Resp. to USPS/CSA-T1-6. In particular, there was no agreement that the cost coverage should be at or around the system wide average.

The BPRS rate was not reviewed in Docket No. R97-1 because BPRS was a new service and the Postal Service was conducting a cost study as required by MC97-4. Tr. 23/10648 (Buc).

On October 30, 1998, the Postal Service issued its BPRS cost study showing attributable costs of \$0.93, and a cost coverage of 188 percent. The Postal Service revised that cost figure to \$1.038 to comport with the Commission's methodologies from the R97-1 case. Unit costs of \$1.038 result in a cost coverage of 168 percent. The chart



shows that users of Standard A and BPRS to receive return parcels have been overpaying for many years. USPS/CSA-T1-24.

Discussions ensued between the Postal Service and affected mailers based on the BPRS cost study. The CSA finally filed a complaint to redress the BPRS rate based on the BPRS cost study. Docket No. C99-4. In the complaint case, the Commission recommended a 13 cent reduction in the BPRS rate based on the cost shown in the Postal Service cost study. The Postal Service Board of Governors rejected the Commission's recommendation.

In sum, the appropriate cost coverage for BPRS has not been previously reviewed.

2. Systemwide Cost Coverage is Not Appropriate for BPRS

The Postal Service argued that BPRS coverage should be close to systemwide average because that was the original intent of BPRS. USPS-T-39 at 17 (Mayo). In Docket No. MC97-4 when BPRS was created, the Postal Service's pricing witness Mohammad Adra (USPS-T-2) testified:

The Postal Service proposes for BPRS a simple flat fee of \$1.75 that is based on the cost estimates developed by witness Pham, USPS-T-1. A per-piece and per-pound fee structure of \$.60 per-piece and \$1.50 per-pound was first considered and consequently used to derive the flat rate. The resulting average per piece revenue of \$1.75 (using an average weight of 0.768 pounds per piece) was adopted as the flat fee. Using Pham's \$1.12 per piece cost estimate, the flat fee of \$1.75 yields a cost coverage of 157 percent. Docket No. MC97-2, USPS-T-2 at 13.

Adra's testimony on coverage was thus limited to the mathematical calculations. There is no statement that the original intent of BPRS was for systemwide coverage.

Further, there are several reasons why using systemwide average does not make sense. First, systemwide average (even as a benchmark) does not recognize the necessity to balance the factors of the Act, or give due consideration to that particular type of mail. Second, systemwide average is itself only the result of a mathematical calculation that has no independent source of validity. Third, no mail is viewed as systemwide average or is considered as such.

Thus, the question becomes what should the cost coverage for BPRS be. For the reasons stated below, the appropriate cost coverage is the same as that for Standard A regular mail.

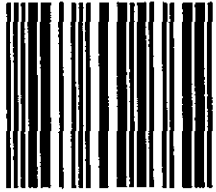

3. Standard A Parcels Should Have the Same
Cost Coverage For Both the Outbound and Return Legs

Postal Service witness Mayo justifies her proposed higher cost coverage based on the circumstances of the Standard A outbound parcel. For example, Mayo erroneously concludes that BPRS should have a higher coverage because the outbound leg does not cover its costs. USPS-RT-22 at 6-7.

The issue of whether parcels which become BPRS cover their costs on the outbound leg is not relevant to the proper coverage for BPRS. These parcels are Standard (A) and Standard (A) does cover its costs. BPRS will cover its attributable cost under both the CSA and Postal Service proposals. USPS-T-39 at 15, Tr. 23/10649. Mayo's testimony notwithstanding, the outbound leg is really only significant because it gives a yardstick against which to measure the return leg.

Perhaps most significant, the Postal Service itself defines BPRS parcels as Standard A mail. This is shown in the Postal Service's implementing regulations for the BPRS return label. The "class of

mail" endorsement required by the Postal Service for the BPRS return label is "Standard Mail (A)." Fed. Reg. Vol. 64, No. 180, September 17, 1999, p. 50452. A BPRS return label approved by the Postal Service looks like this:

0491L FROM _____ _____ MEMBERSHIP# _____ RETURN SERVICE REQUESTED - BPRS	STANDARD MAIL (A)	NO POSTAGE NECESSARY IF MAILED IN THE UNITED STATES
 60061	BULK PARCEL RETURN SERVICE COSMETIQUE VERNON HILLS, IL 60061 200 CORPORATE WOODS PARKWAY COSMETIQUE, INC. 200 CORPORATE WOODS PARKWAY VERNON HILLS, IL 60061	

Furthermore, the outbound Standard A parcel and the return BPRS parcel share numerous characteristics. First, BPRS returns are Standard A mail on the outbound leg, and thus meet all the requirements of Standard A mail, e.g. 16 ounce maximum weight. Second, the DMM provides that only parcels mailed out Standard A can be returned under BPRS. DMM S924.1.2 states that "BPRS is available only for the return of machinable parcels, as defined in C050, initially prepared and mailed as Regular or Nonprofit Standard Mail (A) machinable parcels." Third, parcels returned under BPRS use the same ground transportation and receive the same lowest priority as Standard A mail. In fact, while Standard A has a delivery standard, the Postal Service has not established a delivery standard for BPRS.

The lack of a delivery standard lowers the value of BPRS. Tr.
23/10649 (Buc).

The fact that the Postal Service decided to create BPRS as a "special service" rather than adjust the Standard A regular mail category should not be significant in determining the cost coverage. Regardless, the fact that BPRS is a special service does not, in and of itself, dictate a higher cost coverage. The cost coverages for the numerous "special services" are all over the board.

In summary, if it looks like Standard A regular, is processed like Standard A regular, is transported as Standard A regular, is designated as Standard A regular on return labels, it should have the same cost coverage as Standard A regular.

4. The Nine Factors Under the Act Support the Same Cost Coverage as Standard A Mail Regular

The application of the Title 39 policies and the nine factors show that the current cost coverage for BPRS of 168 percent is too high. The cost coverage should be 132.9 percent, the same coverage as applied to Standard A regular mail. USPS-T-32, Exhibit USPS-32B (Mayes).

The first factor of "fairness and equity" provides the foundation on which all the other factors are based, and is the basis for balancing the other factors. §3622(b)(1). As shown in this proceeding, the current BPRS coverage of 168 percent, and the 146 percent coverage proposed by the Postal Service (USPS-T-39 at 15) (Mayo), contradict this factor.

The "value of service" in factor 2 looks at the inherent worth of the service provided to the sender and recipient. §3622(b)(2). The

value of the BPRS service is much lower than that indicated by the coverage the Postal Service proposed. BPRS parcels receive low priority in terms of transportation and processing; only ground transportation is used; and the Postal Service determines the frequency of the mailer's pickup of BPRS parcels or its delivery of BPRS parcels. Tr 23/10649 (Buc).

A BPRS rate of \$1.32 per return (without contingency) would more than meet the requirement that BPRS mail "bear the direct and indirect postal costs attributable" to it as required by factor 3.

§3622(b)(3). At that rate, on average, each piece of BPRS would contribute \$0.327 (without contingency) to cover institutional costs.

Factor 4, which considers the impact of rates on consumers and mailers, is also served by decreasing the BPRS rate to more closely reflect the actual cost of service. §3622(b)(4). As described earlier, BPRS was created to remedy a draconian increase in the Third Class single piece rate (the predecessor to Standard A and the rate previously applied to these return parcels) in Docket No. R94-1. Establishment of BPRS only provided interim relief to the general public and BPRS users. Further relief is now known to be warranted.

Factor 5 considers the impact on alternative services. §3622(b)(5). There is no economically realistic alternative to the Postal Service return of BPRS parcels. That available alternatives are priced considerably higher may explain the demand for BPRS. Overall demand, however, does not equate to value of service. This factor favors lower BPRS rates. Tr. 32/10652 (Buc).

Factor 6 looks at the reduction of costs through the mailer's preparation of the mail. §3622(b)(6). The bulk processing of BPRS parcels, the requirement for machinability of the parcels and the fact that half of the BPRS mailers pick up the BPRS returns establish that Postal Service costs are reduced through BPRS. Tr. 32/10652 (Buc).

Factor 7 favors a straight forward fee structure. §3622(b)(7). The CSA proposal will have no effect on the per piece fee structure. This will continue the straight forward and easily understood fee structure. Tr. 32/10653 (Buc).

Educational, cultural, scientific and informational considerations of factor 8 do not apply. §3622(b)(8).

5. A Lower Cost Coverage for BPRS Than
Standard A Regular Mail Could be Supported

The "value" of the service is at its highest on the outbound Standard A leg for both the original mailer and original recipient. For the original mailer, the parcel on the outbound Standard A leg represents the delivery of the merchandise to the customer closing a sale. By comparison, on its return BPRS leg, the "value" of the service is the by-product of an unsuccessful sales transaction. Tr. 23/10650 (Buc).

For the original recipient, the outbound Standard A leg delivers merchandise the customer ordered. Further, the delivery of the parcel is to the mailbox at the house. The return leg for the original recipient shows that he did not want the merchandise ordered. In addition, rather than just going to the mailbox, the original recipient may have to use a collection box or some other location rather than his own mailbox to enter the BPRS parcel.

The difference in the value of the service for the outgoing and return legs is further shown by the experience of Cosmetique, a BPRS mailer. Cosmetique tracks its BPRS returns according to whether the customer continues their membership and receives the next shipment, or whether the customer cancels their membership (and there is no potential next sale). Cosmetique's data from mid-1997 through mid-1999 shows that in 73 percent of the returns, the customer cancels their membership, and in only 27 percent of the returns does the customer continue their membership. In short, 3/4 of the time, the BPRS return marks the conclusion of a business relationship. Tr. 23/10650 (Buc).

The value of the outbound Standard A leg is more clearly shown by the price customers pay for the merchandise sent. Customers of Cosmetique pay around \$20.00 for each purchase of a cosmetic shipment. Docket No. C99-4 Tr. 1/133 (Buc). On the whole, customers return only 13 percent of Cosmetique's outbound shipments (11 percent of the outbound shipments are returned under BPRS; the other 2 percent are non-BPRS returns). Docket No. C99-4 Resp. USPS/CSA-T1-5. This shows a high value to the outbound leg.

By contrast, the return leg is of low value because the customer does not want the merchandise. While there is some value to the company of the return through re-use of the return product, that value is significantly less than the profit made from successful sales. Tr. 23/10651-10652 (Buc).

There are also additional requirements on BPRS parcels that support equal to or lower coverage than the outbound Standard A leg.

BPRS parcels must be machinable; the mailer must receive at least 10,000 a year; and the Postal Service can determine the frequency of delivery to the mailer or pick up by the mailer of BPRS returns.

6. The Minor Modification to BPRS Has No Impact

The minor modification to BPRS has neither increased nor decreased the relative value of the BPRS service. That modification involved two changes: (1) formally allowing the Postal Service to return parcels that customers had opened, resealed and redeposited into the mailstream to the original mailer where it is impracticable or inefficient for the Postal Service to seek the return postage from the customer; and (2) the creation of a BPRS return label.

The percentage of opened versus unopened BPRS returns Cosmetique received for the time periods before and after BPRS, and before and after the minor modification to BPRS is shown. Docket No. C99-4 Resp. OCA/CSA-T1-14:

Table 3:
Percentage of Opened v. Unopened Cosmetique
Third Class Single Piece/BPRS Returns

Pre-BPRS 3/97-10/97		BPRS 10/97-9/99		BPRS-Modification 10/99-12/99	
Opened	Unopened	Opened	Unopened	Opened	Unopened
55.91%	44.09%	54.47%	45.53%	52.44%	47.56%

CSA-T-1 at 9. The data shows that neither the establishment of BPRS, nor the minor modification to BPRS to include opened returns affected the Postal Service's actual handling of opened returns. The modification only codified the Postal Service's pre-existing practice. Tr. 23/10651 (Buc). Moreover, the value of the BPRS service to the mailer is the same whether the return has been opened or unopened.

Cosmetique states that it processes opened and unopened returns in the same manner. Tr. 23/10651 (Buc).

Further, the volume of returns Cosmetique receives from the mail recovery centers has not increased or decreased as a result of the creation of BPRS or the minor modification to BPRS. Docket No. C99-4 Resp. OCA/CSA-T1-7.

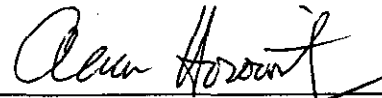
The creation of the BPRS label simply resulted from the Postal Service's determination that there was no additional cost associated with the use of a return label. It also addressed one more vestige from the third class single piece rate anomaly from R94-1. Prior to the minor modification, customers who used a merchandise return label were charged \$3.45 per return -- the Standard B inter-BMC rate of \$3.15, plus the \$0.30 merchandise return label fee. This is almost twice the BPRS fee even though the parcels were returned in the same way regardless of whether a return label was attached or not.

C. CONCLUSION

For the reasons stated herein, the Continuity Shippers Association requests that the Commission issue a Recommended Decision to the Board of Governors finding that the rate for the Bulk Parcel Return Service should be \$1.32, consisting of \$0.992 in FY 1999 costs and a cost coverage of 132.9 percent (or \$0.328 towards institutional costs). Such a rate properly reflects the value of the Bulk Parcel Return Service and is in accord with the policies and purposes of the Act.

Dated: September 12, 2000

Respectfully Submitted,




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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing brief on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Dated: September 12, 2000


Aaron Horowitz